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FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 7289
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY
RUEHOT/AMEMBASSY OTTAWA PRIORITY 2292
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEHC/DEPT OF LABOR WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHMFIUU/CDR USSOUTHCOM MIAMI FL PRIORITY
RHMFIUU/CDR USNORTHCOM PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

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SIPDIS

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STATE FOR A/S SHANNON
STATE FOR WHA/MEX, WHA/EPSC, WHA/CAN/GREG SPROW, EB/IFD/OMA
STATE FOR EB/ESC MCMANUS AND IZZO
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GWORD
USDOC FOR ITS/TD/ENERGY DIVISION
TREASURY FOR IA (ALICE FAIBISHENKO)
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND ALOCKWOOD
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)
NSC FOR DAN FISK

E.O. 12958: N/A

TAGS: [ECON](#) [ECPS](#) [EFIN](#) [ELAB](#) [MX](#) [PGOV](#) [PREL](#)

SUBJECT: MEXICO ECONOMIC NOTES, MAY 26 - JUNE 1

Summary

1. (U) President Calderon said he was displeased by the appreciate of the peso resulting from the Bank of Mexico's decision to raise interest rates. He also urged governors to negotiate on fiscal reform. Finance Minister Carstens expects mid-year GDP growth to reach 3.8 %. Cofetel issued regulations on local number portability. The U.S., Canada and Mexico agreed on an Energy Science and Technology agreement to be signed at the upcoming SPP Energy Ministerial. End summary.

The Peso Appreciates

2. (U) During a May 30 conference organized by the Economist, President Calderon indirectly joined criticism of the April 27 decision by the Bank of Mexico to raise the benchmark interest rate for the first time in two years. Calderon said that the appreciation of the peso is not "something that makes us very happy." The peso has strengthened 1.8 percent since the Bank of Mexico raised the benchmark interest rate for the first time in two years. This week, the peso appreciated 40 percent to 10.78 pesos per dollar. Mexico's currency is expected to remain strong during 2007 due to economic stability, low country risk and reduction in foreign debt. For similar reasons, Mexico's stock market continues to rise to record levels. Bank of Mexico figures show a continuing decline in the pace of remittances coming into Mexico, but this has not affected the exchange rate to date.

Finance Minister Predicts an Economic Recovery

3. (U) Finance Minister Agustin Carstens told Mexican finance executives that GDP growth should reach 3.8% in the second half of the 2007 due to a dynamic service sector as a

result of strong domestic demand, a U.S. economic recovery, a recovery of the Mexican automobile sector, higher consumption and investment in machinery and equipment, increased job creation in the service sector, growing bank lending, stable consumer prices (except for agricultural products), positive performance of finance markets, a low country risk premium, sound public finances and recovery in oil prices.

Governors and Finance Ministry to Discuss Fiscal Reform

14. (U) During the annual Mexican National Governors Conference, President Calderon urged governors to negotiate on tax reform, and instructed Finance Minister Carstens to find alternate income sources for the states. Calderon said he supports "true fiscal federalism," which encourages tax uniformity and corrects in disparities in income distribution. Carstens will meet the governors next week to lobby for tax reform.

Phone Number Portability Approved

15. (U) Mexico's telecom regulator Cofetel has issued regulations allowing customers to keep their phone numbers when they change fixed-line or cellular service providers starting next year. The rules should be published in the Official Gazette soon, and will take effect 255 days after being published. Companies will be allowed to charge a one-time fee to customers who change providers and keep their phone numbers. Number portability was one of the requirements under the convergence law passed in October 2006, which required that Cofetel set regulations on

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portability and companies ensure portability before being allowed to offer triple-play services.

Energy S&T Agreement Reached

16. (U) The Embassy participated in negotiations with Mexico and Canada to reach a framework agreement to allow cooperation on Science and Technology projects among the three countries. Plans are on-track for ministers to sign the accord at the July 23 SPP Energy Ministerial in Ottawa.

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